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Agricultural Situation

Agribusiness Report October/November 2002

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Report Highlights: New Zealand Parliament passes Kyoto Protocol Bill. Farm incomes forecast to fall U.S.$ 200 million in 2002/2003 due to cold spring. Dairy: Fonterra announces new strategic plan. Organics: Organics export growth slows. Forestry: New Zealand's forest contractors launch new industry association. NZ companies stress log marketing consolidation by forming new company.

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
Wellington [NZ1], NZ

GENERAL

Kyoto Protocol Bill Passed by New Zealand Parliament

The New Zealand Government is set to ratify the Kyoto Protocol on December 10, after the New Zealand Parliament voted 61-56 in favor of the Climate Change Response Bill. The bill sets up the legal framework to ratify the Kyoto Protocol. The main policies include: (1) An emission charge applied to fossil fuels and industrial process emissions of NZ$ 25 (U.S.$ 12.5) for each ton of carbon dioxide equivalent. (2) The provision of government incentives for 'Climate Change Projects' that deliver defined reductions in greenhouse gas emissions, in any sector of the economy. (3) Negotiated greenhouse agreements between the Government and firms or industries to achieve international best practices in managing emissions in return for an exemption from all or part of the emission charge. This applies to industries which run the risk of becoming uncompetitive if levied with the full emission charge. (4) The bill exempts the agricultural livestock sector from any emission charge during the first commitment period (2008-2012) provided the sector invests in research to identify options for reducing agricultural emissions. (5) The Government will retain all 'carbon sink' credits as well as liabilities allocated to New Zealand under the Kyoto Protocol in recognition of the carbon sink value of post-1990 forest plantings.

New Zealand Enters into Trade Talks with Chile/Singapore & Mexico

During the 10th Asia Pacific Economic Co-operation (APEC) summit in Los Cabos, Mexico in October, the New Zealand Prime Minister, Helen Clark, signed a three-way free trade plan with Chile and Singapore. New Zealand already has a free trade agreement with Singapore. Serious talks with Chile will begin towards the middle of 2003 with the aim of achieving a three-nation free trade agreement which will be signed by October 2004. From New Zealand's perspective, this holds significant economic and strategic advantages for all three countries involved. Clark was reported as saying that the New Zealand-Chile-Singapore free trade plan formed bridges between Latin America, the Pacific and Asia, and offered New Zealand the opportunity to open trade in Latin America. New Zealand's trade with Chile is modest. New Zealand exports to Chile were valued at NZ$36 million (U.S.$ 18 million) during the 12-month period to June 2002. This accounted for less than 1 percent of New Zealand's total export trade. A spokesperson for the New Zealand Trade Negotiations Minister was reported, however, as saying that a free trade agreement could save New Zealand exporters up to NZ$ 10 million (U.S.$ 5 million) in market access costs every year. Clark also believes that New Zealand has the potential to successfully export services and technology and to improve economic cooperation and investment between the countries.

The announcement of talks aimed at securing a three-way closer economic partnership between New Zealand, Singapore and Chile is not new. Former New Zealand Prime Minister, Shipley, announced the initiative at the APEC summit in New Zealand in 1999. It has taken three years to progress talks to this latest announcement. One of the more difficult issues for Chile is its dairy industry which is concerned that a free trade agreement with New Zealand might saturate the Chilean market with New Zealand dairy products. The New Zealand Government has released a detailed discussion paper on the New Zealand/Chile bilateral and economic relationship as support to the negotiations and for use in a program of domestic consultations that will now start in New Zealand.

In a separate development at the APEC summit, New Zealand and Mexico took steps toward initiating talks on a free trade arrangement by agreeing to study the potential benefits of a closer economic partnership. Mexico is currently New Zealand's largest Latin American export market. New Zealand's exports to Mexico are valued at NZ$ 515 million (U.S.$ 257.5 million), consisting largely of dairy, sheep meat and beef products.

Cold Spring Weather Lowers Farm Income in the 2002/2003 Season

The New Zealand Ministry of Agriculture and Forestry (MAF) is forecasting that total earnings from New Zealand's agriculture and horticulture to fall NZ$ 400 million (U.S.$ 200 million) in the 2002/2003 season. The forecast is based on a farm production decrease for major New Zealand sectors, between 2 and 5 percent caused by the coldest spring weather in the last 20 years. Frost and hail damage could lower grape producer incomes NZ$ 54 million (U.S.$ 27 million), kiwifruit growers NZ$ 57 million (U.S.$ 28.5 million), and apple growers NZ$ 27 million (U.S.$ 13.5 million). Late snows in the south of the South Island killed 750,000 lambs valued at NZ$ 15 million (U.S.$ 7.5 million) and continuing cold weather is slowing grass growth which might reduce slaughter weights and thus reduce earnings an additional NZ$ 27 million (U.S.$ 13.5 million). Reduced pasture growth will reduce wool weight per head, as well as cattle and deer slaughter weights, leading to a further earnings reduction of NZ$ 193 million (U.S.$ 96.5 million). Vegetable and arable crops are also affected by the cold temperatures, potentially causing an earnings decrease of NZ$ 20 million (U.S.$ 10 million). New Zealand's GDP could be reduced as much as 0.3 percent due to these adverse weather conditions. The economic impact is subject to multiplier effect when considering downstream processing and markets for finished products.

New Zealand National Organics Standard Discussion Document

A national standard for New Zealand organic producers has been released for public comment (view the document at www.standards.co.nz/drafts). The standard, developed in response to recommendations made by the New Zealand Government Primary Production Committee, is designed to align New Zealand organic product standards with organic standards in other parts of the world. The organics standard was developed jointly between the New Zealand Ministry of Agriculture and Fisheries and Standards New Zealand and is based on a draft Australian standard. According to Standards New Zealand, the trading arm of the Standards Council which is a crown (government) entity operating under the Standards Act 1988, the standard is expected to be finalized in 2003. The final standard initially will be a 'voluntary' standard which industry may choose to use as a benchmark for industry certification. Affected will be the production, processing and handling of organic products, including plant and plant products, and animals and their products. Public comments to the document will be considered by a committee consisting of grower representatives, government bodies and consumer groups.

New Zealand Organic Export Growth Slows

An annual survey of New Zealand's organic exporters has revealed that the sector is not growing as fast as previously anticipated by industry insiders (see GAIN report NZ2023 for a general background on the New Zealand organics industry). In the years 1996 to 2000, export revenues for organic products rose from NZ$ 10 million to NZ$ 59 million. However, in 2001, earnings fell to NZ$ 57 million (U.S.$ 24.5 million). Export value in 2002 is estimated to increase only slightly to nearly NZ$ 60 million (U.S.$ 30 million). In contrast, previous export growth projections were much more optimistic. Industry insiders believe the minimal growth in exports was caused by the expansion of the New Zealand domestic market which absorbed increasing volumes at good prices and organic production growth has been insufficient to satisfy export market demand.

Import protocols in overseas markets, like the EU or Japan, are fostering this trend as they are becoming increasingly difficult to meet. For example, organic export sales to Japan are subject phytosanitary requirements that if not met result in the fumigation of the consignment. According to industry sources, New Zealand organic export sales were affected by fumigation to the value of NZ$ 7 million in 2001/2002. Half of this value was attributed to the direct cost of fumigation while the other half accounted for the loss of value associated with losing the organic status and reduced fruit quality. However, kiwifruit marketer Zespri, for example has indicated that the incidence of fumigation for its organic kiwifruit has been decreasing from 50 percent some years ago to 32 percent in 2002, compared with an industry average for conventionally-grown products of 49 percent. Increasing standards and rules in overseas markets will make it increasingly demanding on New Zealand exporters to source suitable products in the future, according to industry sources.

The new United States Department of Agriculture (USDA) National Organics Program (NOP) is also adding to the demands placed on New Zealand organic producers according to the Organic Products Exporters of New Zealand (a New Zealand industry association). The New Zealand Ministry of Agriculture and Forestry's (MAF) conformity assessment system used to accredit New Zealand organic certification organizations was recognized by the USDA to be sufficient to ensure conformity with the technical standards of the USDA's National Organics Program (NOP). This will allow organic certification organizations accredited by MAF to apply the NOP technical standards to New Zealand organic agricultural products and allow New Zealand organic agricultural products conforming with the standard to wear the USDA's organic seal. MAF's longer term target is, however, to gain full equivalency status for its own organics standard which has just been released for a period of public comments before being finalised in 2003. According to the industry, such a New Zealand standard which will be accepted by New Zealand's major trading partners would be of major benefit to New Zealand organic exports overall.

DAIRY

Fonterra Announces New Long-Term Strategy

Fonterra has unveiled its 5 to 10 year strategic plan which is designed to enable Fonterra to add growth of at least 13 to 15 percent annually to total shareholder returns and to maintain its focus on better understanding its customers. The strategic plan is set out in seven strategic themes which bear similarity to the Dairy Board's 1999 strategy: (1) Fonterra aims to be the lowest cost supplier of commodity dairy products, to protect and promote New Zealand's competitive advantage to produce and market commodity dairy products at the lowest cost, and to achieve on-farm productivity gains of 3 to 4 percent per annum. (2) Fonterra aims to be the leading price and inventory manager in global commodity markets, to be smarter in handling inventory, working capital, pricing and product-mix, and to promote trade liberalization at global and bilateral levels. (3) Fonterra will develop dairy ingredient partnerships, understand its customers better and create value for them, and increasingly market its technical skills in overseas markets. (4) Fonterra will strive to be a leading speciality milk components innovator and solutions provider, and continue to build its protein business. (5) Fonterra seeks to be a leader in consumer nutritional milks, build on the Asian market which demands milk with health and nutritional benefits, and be on par with the very best consumer foods companies in rapidly moving new products to the market. (6) Fonterra is focused to be a leading dairy marketer to food services in key markets. (7) Fonterra will develop integrated strategies for China, South America, India and Eastern Europe. Overall, Fonterra aims for global dairy industry leadership from its current fourth position in the world dairy business.

Fonterra Brings New Zealand Milk Products (NZMP) into Its Corporate Structure

NZMP, Fonterra's dairy ingredients business, has been brought under the Fonterra Co-operative Group Limited's corporate structure, after being a stand-alone business unit since the dairy industry merger that created Fonterra in October 2001. Fonterra's chief executive, Craig Norgate, commented that the previous structure with its umbrella organization, Fonterra Enterprises, and two subsidiaries, New Zealand Milk (NZM) and NZMP, was appropriate during the first year of Fonterra's operation. However, in order to continue to deliver good performance, Norgate added that it was necessary to reduce duplication in various support services and to achieve organizational integration behind a single Fonterra strategic vision. NZM, Fonterra's consumer goods business in sales, marketing and distribution, will remain a separate business unit. Some industry insiders see the restructuring exercise as an attempt by Norgate to gain full control of NZMP.

Serious Fraud Office Investigates Illegal Milk Powder Exports

In September 2001, the former New Zealand Dairy Board raised concerns with the Ministry of Agriculture and Fisheries (MAF) about possible export improprieties or illegal sales activities, later referred to as the "Powdergate" scandal, by the former dairy co-operative, Kiwi Dairies. (Note: Kiwi Dairies merged with New Zealand Dairy Group and the Dairy Board in October 2001 to form Fonterra). The alleged illegal exports have occurred over several years and are estimated to be in the vicinity of NZ$ 50 million (U.S.$ 25 million). The exports were deemed illegal because Kiwi Dairies failed to obtain the required export licences from New Zealand's statutory monopoly exporter at the time, the New Zealand Dairy Board.

In November 2001, Fonterra announced that former New Zealand Dairy Group was also under investigation for alleged illegal exports during the 2000/2001 dairy season. MAF briefed the Serious Fraud Office (SFO) on the alleged illegal sales. Fonterra conducted its own internal inquiry which concluded in December 2001 that two former senior Kiwi Dairies executives had resigned from their Fonterra positions and that the inquiry was now closed. Fonterra blamed the old dairy industry structure and the actions of individuals which were aimed at maximizing returns to their company. However, there was no evidence of improper personal gain from the exports according to Fonterra.

In February 2002, however, MAF investigators seized documents from several of Fonterra's production sites and began their own investigation. (Under law, MAF is charged by the government with policing dairy exports). In July 2002, the so-called 'Powdergate' probe was transferred to MAF's newly-formed agency, the Food Safety Authority. In October 2002, eleven months after its first briefing by MAF, the SFO decided to take over the entire investigation.

HORTICULTURE & PRODUCTS

Increasing Export Demand for Organic Corn Outstrips Supply

Heinz Wattie's, New Zeland's largest exporter of processed organic vegetables, has encountered supply bottlenecks in the wake of increasing export demand for its processed organic vegetables. Heinz Wattie's in New Zealand produces several lines of frozen and canned organic vegetables as well as organic baby food. A major supply contract with a Taiwanese company has led Heinz Wattie's to increase its annual organic sweetcorn production from 150 tons to between 200 and 250 tons. In order to satisfy Taiwanese demand, Heinz Wattie's established additional crops at Hastings in the North Island. Despite offering a price premium (60 to 100 percent above conventional products), the number of suppliers of organic vegetables has leveled out in recent years. (For background information please refer to GAIN report NZ2023).

FORESTRY & PRODUCTS

Forest Contractors Association Launched

As of November 2002, the New Zealand forestry sector has another industry organization that will represent the collective interests of all forestry contractors. The Forest Industry Contractors Association, FICA, will try to attract a broad base of members from New Zealand's forestry contracting businesses which generate an aggregate turnover of more than NZ$ 50 million (U.S.$ 25 million) and employ between 900 to 1000 staff. The establishment comes in response to a realization among forestry contractors that there is a need for establishing industry training standards and adopting a united approach to industry representation to improve and promote contractors' interests. Recent strong growth in the entire forestry sector is driving the need to represent contractors' collective interests on a number of levels, according to the FICA president. FICA plans to provide a number of services, including continuous educational opportunities. All programs run by FICA will focus on helping contractors improve their operational efficiencies, enhance profitability, and deliver improved services to clients.

New Zealand Log Marketing Plan

Carter Holt Harvey and the receiver of the Central North Island Forest Partnership (CNIFP) have announced the formation of a new company (working name: Export Co) to coordinate the export marketing of logs from New Zealand. The company will sell and transport logs to export markets and ultimately develop New Zealand wood standards and brands. Other New Zealand firms will be allowed to join Export Co. The idea for such a company has been discussed in the industry for some time but has never been realized due to conflicting market interests of individual companies. While the company formation has received verbal support from industry stakeholders, it is currently unclear whether Export Co would buy the logs or act as an agent, or how the certification of logs would be operated. Export Co could handle about 40 percent of log exports and more if Fletcher Forests joined the group. However, the direct benefits would be in the area of sharing logistics and transportation costs.

The attempt to coordinate marketing on a large-scale comes amidst widespread debate regarding industry consolidation to deal with rapidly increasing harvest volumes over the next 2 to 10 years (often referred to as the ‘wall of wood’). However, not all forestry industry sectors agree that Export Co is required. The Timber Industry Federation (a voluntary association of independent New Zealand saw millers) sees no need for this kind of consolidation. Many independent saw millers, excluding the bigger corporate companies such as Carter Holt Harvey and Fletcher Forests, currently operate very profitably. Together as a group, the independent saw millers have doubled their production and increased export trade in recent years. Independent sawmillers continue to add new processing capacity.

Independent saw millers, however, are in a fundamentally different situation than corporate forest owners. Return on investment on growing forests has generally been inadequate to generate the cashflow needed by the larger corporate operations to increase their processing capacity significantly. According to supporters of log marketing consolidation, coordination will help New Zealand to build significant marketing capacity which will ensure the generation of needed cash flow for investment. Proponents of Export Co also believe that independent saw millers will not be able to meet the future processing demands that the ‘wall of wood’ will require despite their ongoing capacity expansion activity.

FISHERIES

Ministry of Fisheries Introduces New Species Into the Quota Management System

Reflecting the beginning of a major expansion of the quota system planned by the Government, the New Zealand Ministry of Fisheries is introducing ten more commercially caught fish species into the Quota Management System (QMS). The species introduced include paddle crab, butterfish, blue mackerel, queen scallops, cockles, anchovy, pilchard, garfish, sprats and kina.

Over the next three years the Ministry will work towards introducing an additional 40 species into the QMS. There are currently 54 fish or shellfish species under the QMS, including most commercially valuable species. For each fish stock, a total allowable catch is set by the Ministry of Fisheries that will maintain the existing fish stock or move it towards a size that can produce the maximum sustainable yield. The QMS allocates each commercial fisherman a share of the total allowable commercial catch. Their asset allows the fishermen to catch fish. Catch shares can also be sold. Allowances for recreational and customary Maori catch are made before the total allowable commercial catch is set. Species outside the QMS are managed under a permit system that confers no tradable rights. Introducing more species to the QMS also enables the Government to meet its obligations to the Maori people under the Deed of Settlement signed in 1992. The deed guarantees that when a new species is introduced, 20 percent of the quota will be allocated to Maoris.